

Audit's

MONTHLY NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

Realty Trust Review

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TRUST SHARES FOR YOUR ATTENTION

Three smaller trusts, among a healthy group, are doing markedly better. By dint of sound, growing organizations and effective leverage, *First Memphis*, *Beneficial Standard* and *Galbreath* look particularly interesting for investment consideration.....p.4

Model Portfolio Review and comment about *General Growth Properties*.....p.7

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INDUSTRY TRENDS

New trust registrations have picked up markedly. They are being sponsored by secondary institutions, many of whom have good localized real estate connections.....p.2

TRUSTS FARE WELL AT HANDS OF WAGE-PRICE BOARDS BUT IRS VIEWS STILL AWAITED

Equity and long-term mortgage trusts are special beneficiaries of last week's Cost of Living Council ruling in effect unfreezing commercial and industrial rents from controls in Phase II. New or substantially rehabilitated dwellings for rent for the first time after August 15 are also exempt. Since these two trust groups are heavily invested in the commercial and industrial sector the ruling removes one major uncertainty. Overall REIT holdings of apartment properties, which remain under the freeze, are a relatively small part of total investments.

Meanwhile proposals for revising IRS regulations affecting REITs are awaited by trust managers and attorneys. Already there has been some speculation on what the IRS will or won't do, but we believe it is ill-advised to speculate on what two complex agencies like the IRS and Treasury Dept. will do on such a complex matter as trust regulation. When the proposed revisions to existing rules are published, there will be ample time for comment from all interested parties. IRS rules on REITs haven't been overhauled since they were originally issued in April 1962, although IRS rulings have been made on specific situations in the interim. National Association of Real Estate Investment Funds requested updating and clarification last spring.

Numerous subscribers have requested quantity rates on THE REAL ESTATE TRUSTS: AMERICA'S NEWEST BILLIONAIRES, and we are pleased to announce the following rates: 1-9 copies, \$24 each; 10-49 copies, \$21 each; 50 and over, \$19 each. With this issue we begin using data from the book, as shown in the table on page 5.

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NEW ISSUES, THE SECOND COMING SHIFTS TO SMALLER BACKERS

After the relative drought of recent months, registrations of new issues have begun to pick up. During the last ten months or so, the new trusts coming public were sponsored by secondary institutions who were striving to fill a geographic niche or specialty slot. Probably all the major institutions which were going to form trusts did so by early 1971. Most of those now in registration resemble their immediate predecessors with the common thread of minor institutions having local connections. Trust consciousness has filtered down to virtually every real estate associated entity and they have at least considered trust formation. Serious consideration is even being given by groups with no real estate background. And now many are taking the step of actual formation and going into registration.

The geographic extension taking place was colorfully illustrated by one of the two new trusts going public within the last month, Realty and Mortgage Investors of the Pacific, RAMPAC. This is a long-term mortgage and equity trust which sold \$25 million in shares and \$25 million in convertible debentures on October 28. Its investments will be in the Pacific Ocean and the Pacific Coast areas of the United States. This covers Hawaii, the Western states and U.S. possessions in the Pacific like Guam, American Samoa and the Trust Territory of the Pacific Islands. The adviser is wholly owned by the Bank of Hawaii. Willis Andersen, Jr. is president of the adviser. Address of the trust: 44 Montgomery Street, San Francisco, California 94104.

A sizeable offer for \$100 million, the likes of which has not been seen since very early in 1971, was made by Continental Illinois Property on November 9 with four million shares at \$25. This equity trust was formed by Continental Illinois Bank of Chicago, the complex which runs Continental Illinois Realty, the mortgage trust. James D. Harper, Jr. is president of the trust. Address of the trust: One Wilshire Building, Los Angeles, California 90017.

Proposed new trusts in registration:

Builders Investment Group is an equity trust offering \$50 million in shares and warrants to buy new properties to be built by unrelated builders over the next three years. It is sponsored by Certain-teed Products Corporation. Shearson, Hammill is expected to make the offering the week of Nov. 15.

NJB Prime Investors is a short-term trust offering \$25 million of shares and convertible debentures. Sponsors are New Jersey Bank, one of the largest banks and construction lenders in New Jersey, and Prime Equities, a publicly owned real estate owner and developer also doing mortgage brokerage. Between them, they originated \$291 million in short and long-term mortgage loans in the past 5½ years. Drexel Firestone is expected to make the offering the week of November 15.

Gulf South Mortgage Investors is a short-term trust offering \$15 million in shares and warrants. The backer is Gulf South Corp. which owns Delta Mortgage, the 159th largest mortgage banker servicing a \$131 million portfolio. Delta has connections to a business group which has been closely identified with Palomar Financial and its affiliated Palomar Mortgage Investors Trust. The new trust is based in Oklahoma where most of the initial investments are. Kohlmeyer & Co. is expected to make the offering the week of November 15.

Ryan Mortgage Investors is a short-term trust offering \$8,250,000 in shares and warrants. Its sponsor is Ryan Mortgage Co., the 45th largest mortgage banking

? *Yes*
 DETAILS OF RECENT TRUST CONVERTIBLE OFFERINGS

Date	Trust	Offer (Mil.\$)	Inter. Rate	Conv. Price	-Conv.Prem.* Mkt.*	To- Bk.Val.	Under. Comm.	-----Warrant Ex.@ Prem.*	Terms----- Per \$1,000
11/4	Capital MI	\$25.0	6.50%	33.00a	6.5%	76.5%	2.25%	None None	None
11/10	Benef. Std.	18.0	6.50	27.75	9.9	48.4	3.00	\$27.75 9.9	15
10/21	Grt.Am.Mtg.	25.0	7.00	35.50	9.2	164.0	2.25	None None	None
10/14	MassMutual	50.0	6.25	33.50	11.2	69.0	1.25	None None	None

* Based on last market price before offering. a-To be adjusted upward or downward each year beginning Jan. 31, 1973 by the percentage by which stock yield varies from bond coupon rate.

company servicing a loan portfolio of \$430 million. Activities of this Texas based firm will be concentrated in the Southwest. Eppler, Guerin & Turner plans the offering the week of December 13.

First Continental Mortgage Investors intends to be an equity trust and is offering \$10 million in shares. The sponsor is First Continental Mortgage Co., the 106th largest mortgage banker servicing a \$201 million portfolio. Initial investments will be mainly in Texas. Offering is planned in late November by L.M. Rosenthal & Co.

ICM Realty is an existing (private) equity trust which plans to raise nearly \$30 million via shares. It already has \$32.5 million invested in real estate. Headquartered in New York City, the ICM organization, prior to real estate trust management in 1968, also performed mortgage acquisition and management for pension funds and other institutions. It now manages \$375 million in mortgage portfolios. Loeb, Rhoades is the underwriter.

First Wisconsin Mortgage Investors is primarily a short-term trust raising \$30 million in shares. Its adviser is a subsidiary of First Wisconsin Bankshares, the largest bank in Wisconsin with assets of \$2.4 billion. The trust has commitments of \$56.3 million in many states and lines of credit for \$35 million. Goldman, Sachs is the underwriter.

Henry S. Miller Realty Trust is an equity trust which will raise \$10 million via shares. The principals are the Henry S. Miller group, big in Dallas apartments and also in commercial properties. The underwriter is Rauscher Pierce.

Larwin Realty & Mortgage Trust is a long-term and equity trust offering \$50 million in shares. The trust is out of the CNA-Larwin financial and building complex that runs Larwin Mortgage, the short-term trust. DuPont, Glore Forgan is expected to bring the issue out in November or December.

KMC Mortgage Investors has registered one million shares with a warrant each. This trust comes from Kentucky Mortgage Corp., a mortgage banker with strong local connections. The underwriter is Hayden, Miller.

Citizens Growth Properties is an equity trust formed to invest in going properties. It plans to raise \$20 million through shares and warrants. This trust is out of Citizens Financial Corp., a financial holding company which sponsored National Mortgage Fund, the short term trust. The underwriter is Prescott, Merrill, Turben.

Hospital Mortgage Group will be a mixed long and short-term trust matching maturities. It will raise \$30 million through shares and warrants. Investments will largely be hospitals and other medical facilities. The adviser will be half owned by R. H. Medical Service, a hospital operating company and half by Mortgage Corp. of America, a Miami mortgage banker that originated \$290 million in loans in the first ten months of 1971. Shearson, Hammill expects to underwrite by late December.

Secondary offerings by existing trusts continue strong. The table on p. 3 lists recent offerings for additional funds by existing trusts. In addition to the four convertible debenture offers above, Lomas & Nettleton Mortgage sold 900,000 shares of straight stock. It is interesting to note reduced reliance on warrants as three of the four convertibles carried no warrants. We may be witnessing a new trend away from dilutionary warrants (which chip away at reported share earnings) after some underwriters, while admitting the shortcoming of this paper, claimed it was a necessary marketing device.

THREE SMALLER TRUSTS WITH GROWTH AMBITIONS

With emphasis on new offerings shifting toward smaller trusts again, it is worth taking a look at this group. Naturally every trust formed seeks growth but with increasing competition in the small trust field, it becomes more difficult for any single trust to break out of the box quickly. As a result the risks of investing in this field are high, since only a relative few of the smaller trusts will make it to large size quickly. But because trusts in this group have such small equity and asset bases, infusion of relatively small amounts of capital can sometimes produce above-average capital gains for investors.

The small-trust field (i.e., those with less than \$40 million assets) numbers about 34 mortgage trusts and 27 equity trusts, among the 115 trusts in THE REAL ESTATE TRUSTS: AMERICA'S NEWEST BILLIONAIRES. In the mortgage trust area, 11 are in the \$30-\$40 million rank while the remaining 23 fall below \$30 million in gross assets. From this group we review three which appear to have capability of above-average growth. Others in this group whose prospects are well-regarded include American Fletcher Mortgage of Indianapolis, Baird & Warner Mortgage of Chicago, Citizens Mortgage of Detroit, Colwell Mortgage of Los Angeles, Heitman Mortgage of Chicago, Palomar Mortgage of San Diego, Fidelco Growth Investors of Philadelphia, Capital Mortgage of Washington, and Hotel Investors of Kensington, Md.

First Memphis Realty Trust, sponsored by the \$900 million-asset First National Bank of Memphis, is a long-term mortgage trust which began life investing principally in short-term mortgages, the path followed by most of the large long-term trusts. First Memphis will end its first year Nov. 30 with the bulk of its portfolio still invested in short-term loan participations (about \$26 million of total holdings of nearly \$30 million, indicating that management is picking its spots carefully in the long-term mortgage and equity market). Nevertheless, portfolio growth has been fairly steady, rising from \$20.1 million at the end of the first quarter last February to current levels. At the end of August, FMRT held \$38 million in commitments for funding, with the bulk still in the short-term area. During the August quarter the trust however bought its first major income property and closing of a second property is expected by fiscal year-end. Both properties were bought subject to mortgages, increasing the trust's leverage a bit. Portfolio yield of 11.48% in the August quarter is adequate, indicating solid holdings.

STATISTICAL PROFILE OF THREE SMALLER TRUSTS

---% of Avg. Investments----

Quar.	Invest. (Mil.\$)	Port. Yield(%)	All Expen.	Operating Margin	Indic. Money Cost	Spread on Borrowings*	Earn./ share
First Memphis Realty Trust							
Feb.	\$20.05	14.10%	3.38%	10.72%	0.0%	0.00%	\$0.40
May	27.96	11.83	2.78	9.05	4.31	4.74	0.44
Aug.	29.37	11.48	2.07	9.41	6.16	3.25	0.48
Beneficial Standard Mortgage Investors							
January	\$15.68	12.00	2.11	9.89	4.32	5.57	0.46
April	14.91	12.05	1.83	10.22	5.33	4.89	0.47
July	25.72	13.13	2.85	10.28	6.96	3.32	0.51
Oct.	E30.50	NA	NA	NA	NA	NA	E0.55
Galbreath First Mortgage Investments							
Dec. '70	\$27.51	12.36	1.36	10.99	8.60	2.39	0.70
March	29.98	11.65	1.29	10.35	2.52a	7.83a	0.61
June	35.51	10.57	1.56	9.00	2.72a	6.28a	0.58
Sept.	38.50	11.30	1.56	9.74	8.32a	1.42a	0.61

*Operating margin minus indicated money cost. a-Distorted by issuance of convertibles in January 1971. NA=Not available. Source: THE REAL ESTATE TRUSTS: AMERICA NEWEST BILLIONAIRES, p. 281, 323 and 337, plus updating calculations.

In its first year, FMRT has been bringing its \$20 million of bank lines into use. These lines both support a \$5 million complement of commercial paper and provide access to credit. Bank lines are supplied by such majors as First National City and Chemical in New York, Continental Illinois in Chicago, State Street Bank in Boston and Wells Fargo in San Francisco under terms requiring compensating balances when in use.

Short-term borrowings amounted to \$7.8 million in August and the arrangements are expected to provide funds for moderate additional leveraging. Money costs have been favorable, with a 6.16% interest rate indicated in the August quarter. With management fees and other expenses amounting to 2.07% annualized in the August quarter, the trust had a 9.41% operating margin (i.e., gross yield minus all expenses except interest). Combined with the 6.15% money costs, the trust had a 3.25% net spread on leveraged funds in the August quarter.

Investments are being drawn from the Memphis region, which has exhibited consistent growth over the past few years. The bank has been active in real estate lending and was able to generate its initial loan portfolio in-house without bleeding the bank's own real estate portfolio. The bank's mortgage banking activities and investment advisory work for the trust have been done by a department of the bank but the REIT advisory function will soon be delegated to a separate bank department. We estimate the trust will earn about \$1.80-\$1.82 for the year ending Nov. 30, or a return of very nearly 10% on book value of \$18.58 per share. For fiscal 1972, the trust's portfolio strategy of investing about 50% of assets in investment property and 30%-35% in long-term mortgages likely will enable it to hold portfolio yields near current levels even during the easier money environment we see ahead. Some moderate further leveraging seems in store, and on this basis we believe earnings will reach about \$2.00 per share for fiscal 1972 and be at an annual rate of about \$2.15-\$2.20 in the final quarter of that year. Like many other trusts moving from mortgage to equity ownership, depreciation is expected to become a larger factor as the year progresses and hence dividends may be slightly higher than reported earnings. At current prices of 25 1/8 (OTC), the shares are

moderately valued at 13.1 times current annualized earnings and provide an indicated dividend yield of 7.2%. They are a buy/hold for conservative accounts.

Beneficial Standard Mortgage Investors, sponsored by Los Angeles life insurance holding company Beneficial Standard Corp., has been expanding its loan holdings fairly rapidly during recent quarters, with holdings reaching about \$30.5 million at the end of the October quarter, double the holdings of last spring. Volume has been increased by use of the Beneficial Standard Life Insurance Co. network of correspondents plus stimulation of a group of smaller, aggressive mortgage banking companies as correspondents. Present strategy is to sidestep the larger metropolitan areas where real estate markets are turning soft and concentrating instead upon smaller cities.

As of July 31, funded loans of \$25.7 million were 82% in construction loans, 5% in land development loans, 4% in land loans and 9% in permanents. In the construction loan category, 26% was in apartments, 12% in hotels and motels, 12% in mobile home parks, and 11% in condominiums. Disbursed loans had a weighted average yield of 11.2%, although fees and other income boosted total yield to an indicated 13.13% in the July quarter. Nearly half (47%) of loans are located in either California or Arizona.

The trust last week offered \$18.0 million of 6½% convertibles accompanied by Series B warrants, its first expansion of capital since the initial offering July 16, 1970. The offering more than doubles capital of \$14.5 million before the offering. In anticipation of the offering, BSM had built bank borrowings to \$13.0 million at July 31 under bank lines now totaling \$16.5 million. In October the trust began issuing commercial paper through a commercial paper dealer and backed by a letter of credit from an Eastern bank. The combined marketing fee and letter of credit fee add about 3/4% to the basic coupon rate on this commercial paper, which of course varies daily (and has been trending downward sharply in recent weeks).

Last week's debenture offering is convertible at a favorable 48.4% premium over book value of \$18.70 (see table, p. 3), but each \$1,000 bond carried 15 Series B warrants, exercisable at \$27.75, which could limit slightly the capital gains potential of the shares. Earnings of \$0.55 per share in the October quarter reflected the maximum leverage built up in anticipation of the offering, and some slackening of the recent rate of growth in earnings per share is to be anticipated. However the trust continues to expand its originating network and build a larger capital base. In its first year BSM earned \$1.85/share primary (\$1.57 adjusted for the potential dilution from 775,000 outstanding warrants), or 10% on book value. We believe moderate gains are in store for fiscal 1972, ending next July, but defer forecasts and a recommendation because of the recent offering. The shares at 25¼ (ASE) are moderately appraised at 11.5 times the recent annualized earnings rate and latest distributions indicate an 8.7% yield.

Galbreath First Mortgage Investments shares have been in a holding pattern for the better part of a year, reflecting the combined impact of falling portfolio yields (see table) and fairly rapid conversions of a January 1971 convertible debenture offering. In both senses, Galbreath's experience may provide a preview of what investors might expect from a number of other trusts. Galbreath's initial public offering in February 1969 enabled it to build a relatively high yielding portfolio which reached a peak indicated 12.36% at the end of 1970.

The January 1971 convertible offering came just as many of the trust's older and higher yielding investments were being repaid, with the result that portfolio yield nosedived 179 basis points (hundredths of a percent) in the two quarters through June.

At the same time conversions added 200,000 shares to the 700,000 shares outstanding at the beginning of 1971. All this tumbled earnings per share by 17% from \$0.70 in the December 1970 quarter to \$0.58 in the June quarter.

Now however a recovery appears underway. Earnings in the September quarter rose to \$0.61 sh. primary and the \$0.60 dividend of the June quarter was unchanged from the previous quarter in deference to President Nixon's call for dividend restraint. Portfolio holdings have now climbed over \$40 million, vs. \$27.5 million at the beginning of this year, and commitments to be funded amount to \$56 million. Many commitments are in the 9½-10% range, down from earlier levels but still good in today's market. The trust is stressing FHA and conventional residential loans, in the belief that larger trusts are not really geared to serve the residential market.

Meantime the trust is building its short-term debt again, relying predominantly upon bank lines. The trust is also working to activate a short-term borrowing plan that resembles commercial paper and holds promise of holding money costs very near the prime rate.

The trust is advised by Galbreath Mortgage Co. of Columbus, Ohio, which is owned by the family of John W. Galbreath, nationally known developer and owner of the Pittsburgh Pirates. The mortgage company has been expanding its office network in recent months, opening offices in Pittsburgh, Pa. and Grand Rapids, Mich. A major strength of the adviser has been its ability to attract highly qualified younger men.

The trust strikes us as being quite similarly situated to Sutro Mortgage a few months ago, when commitments had built to record levels but earnings had not yet begun to show benefits of this activity. (RTR, Aug. 16). GFMI portfolio could reach \$60 million by next March 31, end of its fiscal year, and earnings at that level could approach \$0.70-\$0.72 per share with no additional equity-type financing. With the shares at 28½ (OTC) priced at 11.7 times current annualized earnings of \$2.44 and yielding an indicated 8.4%, Galbreath appears to offer a sound value for near-to intermediate-term holdings.

MODEL PORTFOLIO REVIEW: SHORT-TERM GROUP RISES IN WEAK MARKET

A mixed pattern developed in REALTY TRUST REVIEW's two model portfolios over the latest month as the short-term group rose 2.7% while the long-term equity and mortgage holdings fell slightly. Both groups out-performed the very weak Dow-Jones Industrials, which sagged 6.0% in the month. Both portfolios were opened with \$100,000 last April 21 when the DJI stood at 941.33; since then they have risen by 9.4% and 22.0% respectively, including dividends received, while the DJI has fallen by 11.0%. Despite this record, we are maintaining cash balances in both accounts against better buying opportunities we believe lie ahead.

General Growth Properties, largest holding in the portfolios, reported earnings of \$0.87 per share and net cash flow of \$0.95 per share for its first year as a trust ended Sept. 30. As an operating company (General Management Corp.), earnings were \$0.35 and net cash flow \$1.00 in fiscal 1970. The difference largely stems from the larger number of shares outstanding during fiscal 1971 and the reorganization of the operating company into a trust. GGP's apartment in Houston are renting steadily in a soft market and are expected to reach the 95%-plus level by year end. The Sears store that is the first part of a shopping center in Fayetteville, Ark. opened to excellent response in mid-August. GGP's real estate markets in the mid-continental area continue to be strong relative to many other major metropolitan areas. We expect earnings to be in the \$1.30-\$1.50 per share for fiscal 1972 as this well-managed equity development trust continues to benefit from construction programs now in progress. Portfolio status appears on Page 8.

Dow-Jones Industrials	Oct. 5	391.14	Nov. 9	% Change	- 6.0%
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